



LOUISVILLE CARES
POLICY AND PROCEDURES MANUAL

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Purpose Statement, Goals, Eligibility and Definitions

The Louisville Creating Affordable Residences for Economic Success (CARES) Program provides Gap Financing for the development of Multi-Family Rental Properties that are affordable to households making 80% or less of Area Median Income. Louisville CARES is a flexible tool that can be layered with other sources of financing, including federally-available financing, as needed to support the development of quality Affordable Housing in Louisville.

Louisville CARES is administered through Develop Louisville's Office of Housing and Community Development. It will be used to create 750 New Units created through direct Gap Financing, and to positively affect 750 additional households through Housing Filtering.

Non-profit and for-profit developers of Multi-Family Rental Properties for households making 80% or less of Area Median Income are eligible to apply for Louisville CARES loans. Louisville CARES is a loan program and therefore applications will not be scored competitively or judged collectively. Applicants are evaluated on their merits using the process described herein.

The following definitions apply:

Affordable Housing: Housing, including utilities, that costs no more than 30% of income.

Applicant: A for-profit or non-profit developer of Affordable Housing seeking a loan through the Louisville CARES Program.

Area Median Income or AMI: The US Department of Housing and Urban Development-calculated median income for the community, as adjusted by family size and region.

Borrower: An Applicant who has received a loan through the Louisville CARES Program.

Collateral: Real estate, where total liens, including Louisville Metro's, do not exceed 90% of the appraised/assessed value or current cost; marketable securities in an amount not less than 75% of the loan amount; certificates of deposit or life insurance where cash values are not less than 100% of the loan amount; and other assets with a loan to value ratio to be established on a case-by-case basis.

Eligible Resident: A resident, whether an individual or a household, earning an income that is 80% or less of Area Median Income.

Gap Financing: Financing that fills a "gap" between available private and public project funding, Applicant-provided equity and funding needed to make the project feasible.

Housing Filtering: A concept by which households naturally move into more affordable housing units as those units become available, for example, through the creation of New Units.

Multi-Family Rental Property: Six or more units contained in a single building and available for rental only.

New Units: Units of Affordable Housing that are newly constructed, or that are created through rehabilitation and adaptive reuse of an existing non-residential building, or that are created through the rehabilitation of existing Multi-Family Rental Property where that Property has been vacant for a period of more than twelve (12) consecutive months prior to the date of application for Louisville CARES funding due to a major mechanical or structural issue not caused by the applicant's action or inaction. New Units do not include boarding houses as those uses are defined in the Land Development Code.

Period of Affordability. A period of no less than fifteen (15) years following the completion of project construction during which the units created using Louisville CARES funding shall be made available at rental rates that are affordable for households making 80% or less of AMI.

Underwriting Partner. A third party business or group of businesses or consortium to be selected by Louisville Metro Government through a competitive process to provide underwriting services, loan management and servicing for the Louisville CARES Program.

OPERATIONAL PROCEDURES

Develop Louisville's Office of Housing and Community Development staff ("Staff") shall provide oversight and administration of the Louisville CARES Program.

A Loan Review Committee ("Committee") shall be established to review loan applications. This Committee shall be composed of:

- The Director of the Office of Housing and Community Development, who shall vote only in the event of a tie,
- The Director of the Metropolitan Business Development Corporation,
- The Chief Financial Officer or Designee,
- The Director of Advanced Planning or Designee,
- The Director of Economic Development or Designee,
- Three (3) members of the Board of the Louisville Affordable Housing Trust Fund to be selected by the Board, and
- The Executive Director of the Affordable Housing Trust Fund.

Members of the Committee shall be bound by the provisions of Louisville Metro Code of Ordinances Chapter 21, which governs standards of ethical conduct.

Timely Review. The Committee shall meet monthly to evaluate, process and close loan applications to meet the needs of businesses seeking gap financing through Louisville CARES.

The Committee shall not meet in months where no applications or existing loans are ready for consideration or modification.

PRIMARY LENDING CRITERIA AND TERMS

Louisville CARES is a flexible tool to encourage and support the development of Multi-Family Rental Housing for households making 80% or less of AMI. Loan awards and terms, including interest rates, maturity and amortization schedules shall be determined by the Committee based on the Applicant's proposal, the evaluation of the project against Project Scoring Worksheet (see Exhibit A), and the risk factors present.

1. The minimum loan amount is \$10,000 per project.
2. There is no maximum loan amount per project. Loan amounts will be determined based on the criteria listed below and in the Project Scoring Worksheet with the goal of creating 750 New Units.
3. There is no minimum interest rate.
4. The maximum time frame for repayment is 30 years. There is no minimum time frame for repayment and no penalty for early repayment.

APPLICATION AND REVIEW PROCESSES

Application Period. Louisville CARES consists of an approximately \$11 million fund. To maximize the use of this funding and to help developers leverage it with other competitive funds that may not be awarded until later in the calendar year, Louisville Metro Government shall receive applications for Louisville CARES funding on a rolling basis. The application process shall be opened on November 6, 2015. Applications shall be reviewed on a monthly basis as described below.

Application Process. Applicants seeking funding from the Louisville CARES Program shall:

1. Meet with Staff, if desired, to discuss questions and receive technical assistance in providing complete application materials to request a loan from the Louisville CARES Program.
2. The Applicant shall provide the following materials to the Office of Housing and Community Development:
 - a. A cover letter explaining the following details:
 - i. Applicant's name, address, telephone number and email address,
 - ii. Other owners, partners and guarantors, including names, addresses, telephone numbers and email addresses,
 - iii. Funding request, including the requested term of the loan, repayment schedule, interest rate and rental rates,
 - iv. Sources of finances for the project, including how Louisville CARES funding fits into the project's financing structure,

- v. Project address,
- vi. Status of property ownership,
- vii. Project description, including information about number of units, number of affordable units, rental structure and rates, number of bedrooms, and other pertinent information,
- viii. Explanation of Collateral.
- b. Authorization to obtain credit reports for all owners, partners and guarantors.
- c. Tax returns for all owners, partners and guarantors for three previous tax years.
- d. Project pro forma, including revenue projections for at least fifteen years after completion of construction, the date of expected project rent stabilization, and other information including but not limited to developer's fee, construction contingency which shall not exceed 10%, and operating debt reserve.
- e. Firm commitments to financing provided, where applicable, by other organizations, or copies of applications filed to receive funding from other organizations.
- f. Deeds or leases for the properties on which the project will be constructed. This requirement may be modified in the event an Applicant has a property under option, but has not yet closed.
- g. Evidence of Collateral, including evidence of ownership, including deeds to property and proof of value and ownership for financial assets offered as Collateral.
- h. Project timeline.
- i. Description of project team, including relevant experience developing Affordable Multi-Family Rental Housing.
- j. A completed Project Scoring Workbook, contained in Exhibit A, outlining in narrative form how the project addresses the listed criteria.
- k. Evidence that the Applicant is in good standing with the Louisville Metro Revenue Commission and Human Relations Commission, and that the Applicant, and other owners, officers, partners, and guarantors, and any affiliates, sister organizations or other businesses, whether for-profit or non-profit do not have unresolved violations under Louisville Metro Government's Property Maintenance Code on any properties owned by said individuals or organizations.
- l. Other information as may be requested by Staff.

Review Process. Where necessary to facilitate a project that is being considered for funding by a third party organization, the Committee is authorized to make conditional loan approvals. In such a case, the Committee shall limit the duration of the conditional approval to the least amount of time required to receive a decision from the third party organization, not to exceed twelve (12) consecutive months.

All applications will be reviewed according to the following process:

1. Upon receipt of a complete application, as determined by Staff, Staff shall review the application and supporting documents and:

- a. Forward all applications materials to the Underwriting Partner for review,
- b. Prepare a loan summary using a form substantially similar to Exhibit B,
- c. Complete a Project Scoring Worksheet for the project, and
- d. Schedule a meeting of the Committee to review the project

For an application to be considered by the Committee, it must be submitted and be deemed complete by Staff no later than three weeks before the date of the Committee meeting. Applications received after that date will be considered at the next Committee meeting.

2. At least one week prior to the Committee meeting, Staff shall email Committee members copies of the applications to be considered, including all supporting materials.

3. The Committee will meet to review applications for Louisville CARES funding on a monthly basis, but will not meet in months where no applications are ready for review. For purposes of taking action, a quorum of the Committee consists of five (5) members. Staff will present each application to the Committee and present an analysis of each application, including a review of the recommendation of the Underwriting Partner. Decisions of the Committee shall be by majority vote, and shall be based on the following:

- a. Ability of the project to leverage other funding.
- b. Project risk and likelihood of completion.
- c. Evaluation of the project and recommendation of the Underwriting Partner. In no case shall the Committee award a loan if, after reviewing the project's financial performance, the Underwriting Partner advises against it.
- d. An evaluation of the project using the Project Scoring Worksheet. In no case shall the Committee fund a project that fails to score a minimum of seventy-five (75) points on the Project Scoring Worksheet. The Committee shall not be required to make a loan, regardless of whether a proposed project receives more than this minimum number of points where other factors weigh against making the loan. The decision to make a loan rests in the sole discretion of the Committee, taking into account the totality of the application in light of the criteria listed herein.

In determining project risk, the following factors shall be considered and evaluated:

- Cash flow projections and coverage;
- Louisville Metro Government's priority as a lienholder and the ability of the Borrower to increase this priority;
- Type and value of collateral offered;
- Applicant's credit history;
- The project's viability;

- Background and character;
- Payment history and performance on previous loans, grants or other awards made to the Applicant, if any. No loan shall be made to any Applicant who has previously defaulted on a prior loan or who is not current on an active loan.

4. The Committee may:

- Approve the loan by majority vote. A vote to approve must include at least one Committee member representing the Board of the Affordable Housing Trust Fund or its Executive Director and at least one Committee member representing Louisville Metro Government.
- Approve the loan by majority vote with conditions where necessary to facilitate a project that is being considered for funding through a competitive process or that is waiting for a funding decision to be made by a third party organization. In such a case, the Committee shall limit the duration of the conditional approval to the least amount of time required to receive a decision from the third party organization, not to exceed twelve (12) consecutive months. In the event of a conditional approval, the Committee shall specify what kinds of changes to the project shall require additional review by the Committee, and what kinds of changes shall be reviewed by Staff. In all cases, if changes to the project are made during the period of the conditional approval, the Committee shall determine whether the changes materially affect the evaluation of the project using the Project Scoring Worksheet. In the event the changes cause the score to fall below the minimum required, the conditional approval shall be revoked.
- Table the loan to a future meeting to allow the Applicant to provide answers to specific questions or provide specific additional project details.
- Deny the loan.

POST-REVIEW PROCESS

Staff shall notify each Applicant in writing of the Committee's decision within seven (7) days of the Committee's meeting. Where an application is tabled, Staff shall provide the Applicant with clear direction on information to be provided for the application to be considered at a subsequent Committee meeting. Where an application is denied, Staff shall provide the Applicant with specific reasons for the denial and shall offer to provide technical assistance to help the Applicant address those issues for future applications.

Where an application is approved or approved with conditions, Staff shall prepare a commitment letter, substantially similar to Exhibit C, setting forth the terms and conditions for funding the loan, including a firm date on which the commitment will expire. Staff shall forward this letter, along with the Revenue Commission Consent Form, substantially similar to Exhibit D, and a W-9 form to be completed, signed where applicable, and returned by the Applicant. The Applicant

shall also be apprised of the origination fee, which shall consist of ½% of the amount of the loan amount, recording fees and title report fee.

Once the Applicant has completed, signed and returned the loan commitment letter, Revenue Commission Consent Form and W-9, Staff shall forward these documents along with the following to the Underwriting Partner and will request the preparation of closing documents:

- Closing statement
- Loan agreement, substantially in the form attached as Exhibit E
- Promissory note, substantially in the form attached as Exhibit F
- Mortgage, if required, substantially in the form attached as Exhibit G
- Guarantee, substantially in the form attached as Exhibit H
- Deed restriction, substantially in the form attached as Exhibit I

Staff shall enter information on the new Borrower and the loan into Louisville Metro Government's Loan Management System.

LOAN CLOSING

Loan closings shall take place on a date that is mutually convenient to Staff, the Borrower and the Underwriting Partner, all of whom shall be present for the closing. All individuals who are required signatories on loan documentation, including guarantors, shall be present on behalf of the applicant. The Underwriting Partner shall obtain all necessary signatures on the closing documents and shall verify the validity of all signatures. The Borrower shall provide Staff signed checks for the recording fees, the origination fee and the title report. Upon the execution of all closing documents and the receipt of all required checks, Staff shall be authorized to release disbursements of loan proceeds according to the agreed-upon disbursement schedule. Staff shall provide copies of all closing documents to the Borrower, and Staff shall promptly record all mortgages, liens or other recordable documents executed at closing in the Office of the Clerk of Jefferson County, Kentucky.

LOAN SERVICING

Disbursements. Staff shall process requests for loan disbursement according to the terms of the loan agreement. The Borrower shall submit invoices for work performed to Staff, who shall be responsible for confirming the work was performed as stated, for entering the requested disbursement amount into the Louisville Metro Government's Loan Management System, and working with Louisville Metro Government's Office of Management and Budget ("OMB") to process the disbursement request.

Payments. OMB shall send monthly invoices to each Borrower. Thirteen days before the bill due date, an invoice shall be printed and mailed to the Borrower with an envelope addressed to a 5/3 Bank lockbox that is used to collect and clear checks. Following the collection and entry of

checks from this lockbox, OMB will receive a file listing the checks received and processed. OMB shall enter this information into the Oracle Loan System, which automatically applies payments to the appropriate Borrower. Staff is responsible for working with Borrowers to ensure timely payment, to correct delinquencies and to initiate and manage any required collection actions with legal support from the Jefferson County Attorney's Office.

Loan payments are due on the date set forth in the monthly invoice. If payments are not received within thirteen (13) days of the due date, a \$25 late fee shall be charged to the Borrower on the following month's bill. A Borrower may, within two months of being assessed a late fee, request that the Committee waive said fees. The Committee may waive a late fee under the following circumstances:

- The Borrower has presented convincing evidence that the payment was made on a timely basis but not received through no fault of the Borrower
- The payment was not credited properly to the Borrower's account
- The payment amount was increased without notice to the Borrower and Borrower continued to pay the original payment on a timely basis

MONITORING AND COMPLIANCE

Borrowers who submit reports to document compliance related to the use of Federal housing funding, such as Community Development Block Grant funds, low income housing tax credits or bonds shall provide copies of these required reports to the Office of Housing and Community Development at the time they are submitted to the agency responsible for monitoring compliance with Federal regulations. Failure to provide this documentation on a timely basis shall be considered a breach of the Loan Agreement, triggering all the rights and remedies listed therein.

Borrowers that do not submit reports associated with the use of Federal housing funding shall provide evidence of resident eligibility as described below, and an annual certification that rental rates are in compliance with the Fair Market Rent Guidelines for the current fiscal year as established by US Housing and Urban Development for the unit sizes contained in the project to the Louisville Metro Office of Housing and Community Development. (See http://www.huduser.gov/portal/datasets/fmr/fmrs/FY2015_code/select_Geography.odn) Failure to provide such documentation on a timely basis shall be considered a breach of the Loan Agreement triggering all the rights and remedies listed therein. Borrowers shall confirm that residents are Eligible Residents upon the signing of a lease, and shall provide this documentation to the Office of Housing and Community Development according to the following schedule:

Number of Affordable Units	Timing of Resident Eligibility Reporting
1-20 units	Within one week of unit rental
21-60 units	Monthly reports
61 or more units	Quarterly reports

The Office of Housing and Community Development may conduct site visits to confirm that Borrowers are in compliance with Resident Eligibility requirements. These site visits may include, if required by the Committee as a condition of a loan approval, an inspection conducted using US HUD's Housing Quality Standards.

PERIOD OF AFFORDABILITY

Borrowers shall enter into a deed restriction to run in favor of Louisville Metro Government for a period of no fewer than fifteen (15) years following the date of construction completion requiring that the project maintain the number of units that were supported with Louisville CARES funding as affordable for households making 80% or less of AMI. This deed restriction shall be in a form substantially as shown in Exhibit I, and shall be written to automatically expire at the end of the Period of Affordability. This deed restriction shall be executed at the time of loan closing and recorded by Staff.

LOAN DELINQUENCY AND RESTRUCTURE

Staff shall make all reasonable efforts to work with troubled Borrowers to keep projects on track and affordable for residents. In the event of loan delinquency or threatened default, Staff will work with the Borrower and the Underwriting Partner, where appropriate, to develop a revised repayment schedule to catch up on past-due amounts or to restructure the loan payments to enable the Borrower to repay the loan. Changes to repayment schedules, restructure of loan payments or other modifications to the original loan agreement require the approval of the Committee after receiving a recommendation on such changes from the Underwriting Partner.

A loan delinquency occurs once a Borrower has become more than thirty (30) days late in a payment. Such a Borrower will be notified by Staff of the delinquency so that repayment details can be negotiated. If the Borrower continues to fall further behind in repayments or does not respond to Staff's communication in a timely manner, the loan will be referred to the Jefferson County Attorney's Office for legal action.

Staff shall submit monthly reports to the Committee reflecting the status of all active loans.

Modifications to loan terms must be approved by the Committee after review by Staff and the Underwriting Partner. Before considering any loan modification or restructure, the Borrower must provide the following:

- A current project financial statement
- Personal financial statements for owners, partners and guarantors
- Revised cash flow projections for a minimum of the next twelve (12) months
- Current debt structure with description of terms and collateral
- Other information deemed necessary to make an informed decision about the requested modification or restructure

Factors to be considered in evaluating a request to modify or restructure a loan include:

- The Borrower's payment history
- The current status of the loan
- Cooperation of the Borrower
- Purpose of the loan modification or restructure
- Willingness and ability of the Borrower to pledge additional Collateral
- Borrower's ability to repay
- Viability of project, including ability to lease units and maintain residents
- Maturity date for the loan
- Impact on Louisville CARES portfolio